

## Message Text

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STATE PASS AID

EO 11652 GDS

TAGS MASS MILI TW

SUBJECT: ASSESSMENT OF SECURITY ASSISTANCE-ROC

REF: A) STATE 042777, B) STATE 031505

1. SUMMARY: ROC'S DIPLOMATIC ISOLATION AND DIMINISHED ECONOMIC PERFORMANCE (COMPARED WITH RECENT YEARS) COMPLICATE BUT SHOULD NOT DETER COUNTRY'S ONGOING PROGRAM TO MODERNIZE ITS DEFENSE CAPABILITY. GROC IS ALSO FACED WITH MILITARY BUDGET INCREASE OF 19 PERCENT OVER FY 1974, PAY INCREASES, AND COST INFLATION IN WEAPONS SYSTEMS PROCUREMENT. NEVERTHELESS, ROC ECONOMY STILL OFFERS QUITE STRONG BASE FOR MILITARY EXPENDITURES OF THE MAGNITUDE REQUIRED, PROVIDING THERE IS CONTINUING AVAILABILITY OF FMS CREDITS, FMS CASH PROCUREMENT, INCLUDING EXCESS DEFENSE ARTICLES (EDA), TRAINING, AND ADVISORY ASSISTANCE. WITHIN THESE ECONOMIC LIMITS, AND IN LINE WITH ACCEPTED US/GROC PRIORITIES, US SHOULD:

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(A) SEEK TRADE OPPORTUNITIES FOR SALES OF APPROPRIATE

MILITARY EQUIPMENT TO GROC; (B) HELP MEET SHORTFALL  
IN CASH RESOURCES VERSUS REQUIREMENTS WITH LIMITED  
FMS CREDITS; AND (C) ENSURE DEFENSIVE ORIENTATION  
OF GROC MILITARY BUILDUP/IMPROVEMENT PROGRAMS. END SUMMARY.

2. BACKGROUND: US PLANS, PROGRAMS AND IMPLEMENTING DECISIONS TO  
PROVIDE SECURITY ASSISTANCE TO ROC FURTHER  
THREE BASIC US POLICY OBJECTIVES:

A) TO SUPPORT MODERNIZATION OF ROC FORCES  
AND MILITARY CAPABILITIES ESSENTIAL TO INITIAL DEFENSE OF TAIWAN  
AND THE PESCADORES, WITHIN LIMITS OF US COMMITMENT;

B) TO ENCOURAGE PURSUIT OF MILITARY OBJECTIVES  
COMPATIBLE WITH US FOREIGN POLICY AND STRATEGY, INFLUENCING  
GROC TO ADOPT STRATEGIES, TACTICS AND WEAPONS PROCUREMENT PROGRAMS TH  
AT  
ARE DEFENSE ORIENTED, SPECIFICALLY WITHHOLDING ANY SUPPORT FOR  
OFFENSIVE ACTION BY ROC FORCES AGAINST MAINLAND;

C) TO INSURE CONTINUED RIGHTS, AUTHORIZATIONS, AND ACCESS BY  
US FORCES TO MILITARY FACILITIES ON TAIWAN CONSISTENT WITH US  
POLICY AND TREATY COMMITMENTS.

3. IMPLEMENTATION: IN FURTHERANCE OF ABOVE OBJECTIVES, WE SHOULD  
PURSUE FOLLOWING PRIORITIES OL ENCOURAGE  
ROC FORCE AND MILITARY EQUIPMENT IMPROVEMENT IN FY 1975-80 TIME  
FRAME:

A) MODERNIZE AND RENDER MORE EFFECTIVE ROC AIR DEFENSE, WITH IMPROVED  
  
AIRCRAFT, UPGRADED MISSILES, AND IMPROVED WARNING/COMMUNICATIONS/  
AND INTERCEPT/DESIGNATION CAPABILITY.

B) MODERNIZE ROC NAVAL ASSETS AND IMPROVE ABILITY TO PROTECT  
CONTIGUOUS SEA AREAS THROUGH MODERN SHIP AND WEAPONS SYSTEMS  
ACQUISITION PROGRAM, AND UPGRADED DETECTION AND COMMUNICATIONS  
SYSTEMS, AND

C) IMPROVE ROC ARMY'S COMBAT EFFECTIVENESS BY REDUCING SIZE OF  
GROUND FORCES, AND PROVIDING MORE MOBILITY, ADDITIONAL FIREPOWER,  
AND ENHANCED COMMUNICATIONS CAPABILITY AND, CONDUCT JOINT  
(INTER-SERVICE) OPERATIONS SO AS TO INTEGRATE ALL

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AVAILABLE ASSETS FOR DEFENSE.

4. POLITICAL CONSIDERATIONS: TAIWAN CONTINUES TO COPE QUOTE PRAGMATIC  
ALLY WITH ITS  
INTERNATIONAL POLITICAL ISOLATION, DESPITE ANXIETY THAT, IN  
FUTURE SOME OF FRIENDLIEST NATIONS IN EAST ASIA WILL SEVER DIPLO-  
MATIC RELATIONS IN FAVOR OF PRC. THOUGH REASSURED BY CONTINUING  
US SUPPORT, AND PARTICULARLY BY APPOINTMENT OF NEW US AMBASSADOR,

ROC LEADERSHIP LOOKS UNEASILY AT THE DRAWDOWN OF US FORCES ON TAIWAN AND FEARS THAT, OVER THE LONGER-TERM, THE US MAY RECOGNIZE THE PRC WHILE DOWNGRADING ITS REPRESENTATION IN TAIPEI. ALTHOUGH NOT VIEWED AS A SUBSTITUTE FOR MAINTENANCE OF FULL POLITICAL RELATIONS WITH THE US, ROC LEADERS AND PEOPLE ARE ESPECIALLY CONCERNED AT PRESERVING STRONG SECURITY AND ECONOMIC TIES WITH THE US. GROC HAS THUS COOPERATED CLOSELY IN MILITARY MATTERS AND HAS FACILITATED US TRADE AND INVESTMENT AS MEANS OF BROADENING US STAKE IN ROC'S CONTINUED SURVIVAL.

5. CONTINUED US ASSISTANCE IN DEFENSE MATTERS HAS MODERATED ROC POLITICAL ANXIETIES. HOWEVER, IMPACT OF REDUCED US ASSISTANCE, INCLUDING FMS CREDITS, WITH PIPELINE AND UNUSED PRIOR-YEAR CREDITS SOFTENING TRANSITION, HAS ONLY BEGUN TO REGISTER. OFFSETTING LOCAL DISAPPOINTMENT IS EVIDENCE OF CONTINUING US COMMITMENT TO ROC IN FORM OF F-5E CO-PRODUCTION PROGRAM, SOME CREDITS (THEY HOPE FOR INCREASES), ONGOING AVAILABILITY OF EDA, SURPLUS SHIP PURCHASES, AND TRAINING PROGRAM.

6. GROC--POINTING TO THEIR FIRST QUARTER 1974 TRADE DEFICIT AND THEIR GROWING POLITICAL ISOLATION-- BELIEVE WE ARE OVERESTIMATING THEIR ABILITY TO SHOULDER TOO FAST, TOO MUCH OF THEIR DEFENSE MODERNIZATION PROGRAM. NONETHELESS, GROC HAS ACCEPTED DIMINISHED US FINANCING IN MILITARY SECTOR, WHILE CONTINUING TO BENEFIT FROM OUR PROCUREMENT CHANNELS FOR CASH, CREDIT AND EXCESS PURCHASES. HOPES ARE CENTERED ON CONTINUING US DEDICATION TO DEFENSE COMMITMENT, ON PRESUMPTION THAT PRC MILITARY ATTACK AGAINST ROC IS LESS LIKELY AS RESULT OF COMPLEX OF US/PRC NORMALIZATION EFFORTS, AND ON PROPOSITION THAT STATUS QUO WILL CONTINUE, GIVEN PRC PREOCCUPATION WITH OTHER

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PROBLEMS INCLUDING LEADERSHIP CRISIS AND PERCEIVED SOVIET THREAT.

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7. ECONOMIC CONSIDERATIONS: ECONOMIC CONDITIONS IN ROC ARE LESS FAVORABLE THAN LAST YEAR. ALTHOUGH GOVERNMENT'S STABILIZATION PROGRAM HAS SINCE TAKEN HOLD, ECONOMY WAS DISRUPTED BY HIGH RATE OF INFLATION BROUGHT ON BY HEAVY INCREASES IN COST OF OIL AND OTHER COMMODITY IMPORTS AS WELL AS BY EXTRAORDINARILY RAPID GROWTH RATES. PRODUCTION COSTS, INCLUDING WAGES, HAVE INCREASED GREATLY, THEREBY REDUCING EXPORT COMPETITIVENESS. SLUGGISH PERFORMANCE OF EXPORT SECTOR AND INCREASED COST OF IMPORTS (UP 118 PERCENT BY VALUE DURING FIRST FOUR MONTHS) HAVE FACED ROC WITH PROSPECT OF TRADE DEFICIT IN 1974. THESE PROBLEMS COMBINED WITH TIGHT MONEY POLICIES (RESULTING FROM STRINGENT ANTI-INFLATION MEASURES) HAVE DAMPENED ECONOMIC GROWTH WHICH IS ESTIMATED AT 7-9 PERCENT, DOWN FROM 12.3 PERCENT IN REAL TERMS LAST YEAR. MOREOVER TAIWAN'S ECONOMY REMAINS SUSCEPTIBLE TO AREA AND INTERNATIONAL POLITICAL DEVELOPMENTS, TO EXCESSIVE DEPENDENCE ON LIMITED CAPITAL SOURCES AND MARKETS ABROAD, AND TO HIGH PERCENTAGE OF IMPORTED RAW MATERIALS IN OUTPUT OF FACTORIES.

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8. ABILITY OF ECONOMY TO SUPPORT LOW DEBT SERVICE RATIO-- IS LESS CERTAIN THAN ONE YEAR AGO, BUT STILL GIVES NO REAL CAUSE FOR ALARM. BASIC FINANCIAL CONDITION OF ROC EXPECTED REMAIN SOUND WITH SUBSTANTIAL FOREIGN EXCHANGE RESERVES AT END OF YEAR. IT SHOULD BE POSSIBLE TO FINANCE INCREASE IN GOVERNMENT BUDGET FOR FY 1975 (UP 40 PERCENT) FROM CURRENT REVENUES AND CREDIT FINANCING. BASED ON CONSERVATIVE PROJECTIONS OF

GROWTH OF EXPORTS BALANCED AGAINST GOVERNMENT'S OWN PLANNED REQUIREMENTS FOR FOREIGN RESOURCES TO FINANCE MAJOR DEVELOPMENT PROJECTS AND MILITARY INVESTMENT REQUIREMENTS, FOREIGN DEBT SERVICE RATIO SHOULD CONTINUE IN RANGE OF 6 TO 7 PERCENT. ASSUMING, INFLATIONARY PRESSURES, WAGE RATES AND RAW MATERIALS COSTS REMAIN WITHIN BOUNDS, ROC ECONOMY SHOULD CONTINUE TO EXPAND AT AN ANNUAL RATE OF 7-9 PERCENT FOR NEXT FEW YEARS.

9. FOLLOWING CHART RELATES THIS GROWTH PICTURE TO PROJECTED MILITARY EXPENDITURES:  
 REPUBLIC OF CHINA ECONOMIC INDICATORS (PROJECTIONS)  
 (MILLIONS OF US DOLLARS-FY 1975 CONSTANT PRICES)

GNP	FY75	FY 76	FY 77	FY 78	FY 79	FY 80
	12,983	14,047	15,171	16,385	17,696	19,111
SELF-FINANCED	1,119	1,203	1,224	1,398	1,479	1,567
DEF. EXPEND. (SFDE)						

SFDE AS PERCENT OF GNP	8.6	8.56	8.06	8.53	8.35	8.19
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EXPORTS	6,448	7,222	7,944	8,738	9,612	10,573
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NON-MIL. DEBT SERVICE	308	365	398	449	528	572
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NON-MIL. DEBT SERVICE	4.77	5.05	5.01	5.14	5.49	5.41
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(PERCENT)

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RATIO

MIL. DEBT SERVICE	62	78	84	89	98	107
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TOTAL FOREIGN DEBT SERVICE	370	443	482	538	626	679
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TOTAL FOREIGN DEBT SERVICE RATIO #	5.7	6.13	6.03	6.15	6.5	6.42
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(PERCENT)

#DEBT SERVICE AS PERCENT OF EXPORTS (BASED ON EXCHANGE

RATE) US\$ EQUALS 37.9 NT\$.

10. ROC FORCE ASSESSMENT: ROC MILITARY IS WELL-TRAINED, WELL-LED FORCE WITH REASONABLY HIGH-LEVEL AND GENERALLY GOOD COMBAT EFFECTIVENESS AND READINESS. NONETHELESS, THERE ARE SEVERAL AREAS OF WEAKNESS IN ROC MILITARY DEFENSE CAPABILITY AND GENERALLY-ACKNOWLEDGED DEFICIENCIES IN ALL SERVICES. CONTINUED MODERNIZATION OF ROC ARMED FORCES AND MILITARY EQUIPMENT IS NECESSARY IF THEY ARE TO REMAIN CREDIBLE IN THE DEFENSE OF TAIWAN.

11. THOUGH DRAMATICALLY INCREASED PERSONNEL COSTS CONSUME LARGE PART (56 PERCENT) OF MILITARY BUDGET, AND ABSORB FUNDS WHICH OTHERWISE WOULD GO TO MILITARY EQUIPMENT MODERNIZATION, ROC GIVES LITTLE EVIDENCE OF REDUCING SIZE OF BLOATED GROUND FORCES. CONTINUED COMMITMENT OF LARGE NUMBER OF TROOPS TO OFFSHORE ISLANDS INHIBITS OVERALL

FORCE REDUCTIONS AND ALSO RESTRICTS NUMBER OF TROOPS AVAILABLE FOR DEFENSE OF TREATY AREA. ADDITIONAL FIREPOWER AND ENHANCED MOBILITY OF GROUND FORCES WOULD PERMIT SMALLER, MORE EFFICIENT ARMY BUT MANPOWER REDUCTIONS FACE MAJOR INTERNAL POLITICAL OBSTACLES, COMPOUNDED BY THE ROC PERCEPTION OF THREAT TO ITS SECURITY. HOWEVER, PROSPECT OF PERSONNEL AND O&M COSTS ABSORBING LION'S SHARE OF BUDGET, MAY FORCE ROC ARMY TO MAKE TO&E REDUCTION.

12. ONLY TWO OF THE ROCAF'S FIGHTER WINGS WILL BE MODERNIZED  
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WITH THE 100 F-5E CO-PRODUCTION PROGRAM. THEY WILL NEED CONTINUING F-5E CO-PRODUCTION OR PROCUREMENT OF NEW LIGHTWEIGHT FIGHTER AIRCRAFT STARTING IN 1978. ALL-WEATHER INTERCEPT CAPABILITY IS LIMITED TO SURFACE-TO-AIR MISSILES AND THE HAWK MISSILE SYSTEMS MUST BE CONVERTED TO IMPROVED HAWK TO BE COMPATIBLE WITH US SUPPORT. AERIAL RECONNAISSANCE CAPABILITY IS MARGINAL. AIR-TO-AIR MISSILES NEED MODIFICATION AND MODERN AIR-TO-GROUND CONVENTIONAL MUNITIONS ARE LACKING. THE ROCAF ABILITY TO PROVIDE THE NAVY AS WELL AS GROUND FORCES, WITH AIR PROTECTION IS HAMPERED BY INTER-SERVICE DISPUTES ON COMMAND AND CONTROL, INADEQUATE ALL-WEATHER CAPABILITY, AND THEIR RELATIVELY SHORT AIRCRAFT COMBAT RADIUS. ROC NAVY'S PRINCIPAL PROBLEM IS LACK OF MODERN WEAPONS AND FIRE CONTROL TO PERMIT POINT DEFENSE AGAINST MISSILE AND AIR ATTACK. THE ROC SHIPS ARE, ON AVERAGE 30 YEARS OLD AND LACK SUCH ITEMS AS VARIABLE DEPTH SONARS, SSM, ADEQUATE AIR/MISSILE DEFENSE ARMAMENT, AND NAVAL TACTICAL DATA SYSTEMS. FAST PATROL BOATS AND IMPROVED ASW CAPABILITY ARE ALSO VITALLY NEEDED.

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13. ROC DEFENSE REQUIREMENTS: GROC HAS LENGTHLY LIST OF MILITARY EQUIPMENT REQUIREMENTS FOR ACQUISITION OVER NEXT 5 YEARS WHICH WILL TAX ITS BUDGET AND BORROWING CAPABILITY. TO ACCOMMODATE MILITARY EQUIPMENT ACQUISITION/MODERNIZATION PROGRAM, MND BUDGET FOR FY 1975 HAS BEEN APPROVED (UP BY ABOUT 19 PERCENT OVER FY 74) AT US\$1.12 BILLION. THIS REPRESENTS ABOUT 50 PERCENT OF CENTRAL GOVERNMENT BUDGET.

14. THERE HAS BEEN SIGNIFICANT COST ESCALATION IN VIRTUALLY ALL WEAPONS SYSTEMS FOR WHICH GROC HAS SOUGHT QUOTATIONS FROM US SUPPLIERS. HOWEVER, FOR REASONS OF COMPATIBILITY WITH EXISTING INVENTORY, FAMILIARITY WITH US PROCUREMENT PROCEDURES, TRUST IN US QUALITY CONTROL, FOLLOW-ON SERVICING, AND RELATIVE COST COMPETITIVENESS OF US GOODS AND SERVICES, AND LACK OF ALTERNATE SOURCES FOR MAJOR EQUIPMENT, GROC WILL CONTINUE TO DEPEND ON S SOURCES OF SUPPLY. DESPITE THIS, THEIR PROCUREMENT MISSIONS HAVE TRAVELLED WIDELY IN PAST YEAR, CONCLUDING SEVERAL SIZEABLE CONTRACTS WITH EUROPEAN (GERMAN, SWISS) SUPPLIERS. WITHIN DISTINCT LIMITS IMPOSED BY ITS POLITICAL ISOLATION, WE EXPECT THIS INDEPENDENCE OF ACTION TO CONTINUE AND , PERHAPS, SECRET

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INCREASE AS FMS CREDITS TO ROC RECEDE AND US LEVERAGE DIMINISHES.

15. COMMENTS ON BOTH GROC'S CREDIT AND CASH REQUIREMENTS AND CHANNELS OF PROCUREMENT FOR MILITARY EQUIPMENT FOLLOW:

A) FMS CREDITS: THE PLANNING LEVELS FOR FMS CREDIT ALLOCATION TO THE ROC FOR FY 75 (US\$80 MILLION) AND FOR FY 76-80 (US\$80 MILLION, 35 20, 10, 5) AS ANNOUNCED IN STATE 042777, ARE WELL BELOW GROC EXPECTATIONS AND PREVIOUS PLANNING FIGURES (RANGING DOWN FROM US\$134 MILLION TO US\$60 MILLION) AS SET FORTH IN FY 75-79 PROGRAM OBJECTIVES MEMORANDUM (POM) AND DOD'S PROGRAM DECISION MEMORANDUM (PDM).

TRANSITION WILL BE DIFFICULT FOR GROC. REMAINING CREDITS-- OVER AND ABOVE THOSE EARMARKED FOR F-5E CO-PRODUCTION--US\$14.8 MILLION FOR FY 75, US\$20 MILLION IN FY 76 AND US\$13 MILLION FOR FY 77-- WILL NOT GO VERY FAR TOWARD COVERING EXTERNAL INVESTMENT FOR NEEDED MILITARY MODERNIZATION. ACCORDINGLY, AS THE FOLLOWING TABLE DEMONSTRATES, THRUST OF USG ADVISORY EFFORT WITH GROC MUST BE TO ALLOCATE FMS CREDITS OVER THE NEXT FIVE YEARS AS "SEED MONEY" FOR HIGH PRIORITY SELECTED PROJECTS. INTENT, THUS, WILL BE TO RETAIN SOME LEVERAGE AND INFLUENCE OVER SHAPE AND DIRECTION OF FUTURE ROC MILITARY PROCUREMENT.

16 FMS CREDITS WILL BE ALLOCATED TO FOLLOWING LIMITED THOUGH HIGH PRIORITY NEEDS:

FMS CREDIT ALLOCATION  
ROC - FY 1975-80

FY75 FY76 FY77 FY78 FY79 FY80

AERO MODERNIZATION

F-5E/B	65.2	60.8	21.6	0.6		
F-5E RADAR MOD	2.0	1.0	1.0	1.0		
RHAW EQUIPMENT			1.4	1.0		

MISSILES

HAWK MOD/ACQ.	8.9	4.5	4.0	3.0	2.0	1.0
AIM CONV/ACQ.	2.4	3.9	2.0	2.0	2.0	
SHIP MISSILE (SAM)	2.5	0.7	1.5	0.5		

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SHIP MISSILE (SSM)	2.5	0.7	1.5	0.5
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PROJECT GALAXY 3.5  
WEAPONS  
ANTI-AIRCRAFT ART. 1.0 1.0 2.0

COMMAND & CONTROL  
AUTO AIR DEFENSE 4.5 7.5 1.5 1.5  
COMMO-ELECT EQUIP. 1.8 0.5 0.5 0.5 0.5  
OTHER ART. & SUPPORT 2.0  
EQUIP

TOTALS 80.0 80.0 35.0 20.0 10.0 5.0

17. FMS CREDITS WILL COVER ONLY A PORTION OF THE TOTAL COST  
OF THE ABOVE EQUIPMENT. SATISFACTORY COMPLETION OF ABOVE ELEVEN  
PROGRAMS WILL REQUIRE SIZEABLE

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ADDITIONAL OUTLAY OF CASH OR COMMERCIAL CREDIT  
(US\$635.8 MILLION EXTERNAL AND US\$216.5 INTERNAL  
INVESTMENT IN THE PERIOD FY 1974-80) BUT THE  
LIST MERELY SKIMS THE SURFACE OF TOTAL MILITARY  
MODERNIZATION NEEDS PERCEIVED BY THE GROC.

18. VERY RECENTLY-OBTAINED GROC 5-YEAR FORCE BUILDUP PLAN

LISTS EXTENSIVE EQUIPMENT REQUIREMENTS. LIST IS  
SUBMITTED INTACT WITH GROC-ASSIGNED PRIORITIES AND SOURCE OF  
FUNDING. OUR COMMENTS ARE FOOTNOTED:

GROC PRIORITY LISTING OF MILITARY EQUIPMENT  
REQUIREMENTS FY 75-79  
(US\$ THOUSANDS)

NOMENCLATURE SERVICE QUANTITY AMOUNT TYPE ACQUI- PRIORITY  
(CASH) SITION

F-5E ROCAF 100 53,896 CO-PROD 1  
UH-1H HELO ROCA 60 1,212 CO-PROD 2  
T-53 ENG RODA 56 921 CO-PROD 3  
SHIP ACQ (DD)  
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(LOAN & LEASE)ROCN 13 1,433 CASH 4

M-48 TANK ROCA 100 2,203 CASH 5  
M-14 RIFLE CSF 50,000 8,274 LOCAL 6

M-60 MACHINE  
GUN CSF 3,000 3,324 LOCAL 7  
106MM RECOIL-  
LESS RIFLE CSF 100 943 LOCAL 8

4.2" MORTAR CSF 48 463 LOCAL 9  
GAS MASK CSF 500,000 15,263 LOCAL )0  
VEHICLES,1/4T  
AND 2-1/2T CSF 4,368 26,537 LOCAL 11

RADIOS,  
AN/PRC-77 CSF 10,000 10,526 LOCAL 12

HAWK CONVERSION ROCA ROCA 1BTN 30,179 CASH 13  
PGM  
UNDER STUDY) ROCN 5 71,890 CO-PROD 14  
AIM-9 MOD ROCAF 1,000 6,261 LOCAL 15  
S-2E AIRCRAFT ROCAF 12 5,279 CASH 16

40MM FIRE  
CONTROL ROCN 19 375 LOCAL 17

M72 LAW ROCA 5,000 614 LOCAL 18  
TF-104 ROCAF 3 2,807 CASH 19  
RESERVE EQUIP ROCA N/A 23,684 LOCAL & CASH 20

SHIPS (DD) ROCN 2 2,216 CASH 21  
TZ GUN PROD

CAPABILITY CSF N/A 1,529 LOCAL 22  
 RDX GUN POWDER  
 PROD CAPABILITY CSF N/A 5,385 LOCAL 23

BALL POWDER  
 PROD CAPABILITY CSF N/A 6,693 LOCAL 24

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SMALL ARMS PROD CSF N/A 11,177 LOCAL 25

20MM LINKS  
 PROD CAPABILITY CSF N/A 995 LOCAL 26  
 HARPOON MISSILE ROCN 119 32,145 CASH 27  
 SSM (TRIAL  
 BASIS) ROCN 10 10,526 LOCAL 28  
 CHAPARRAL  
 MISSILE ROCA 72 78,948 CASH 29  
 F-4E AIRCRAFT (C) ROCAF 18 91,580 CASH 30

EQUIPMENT  
 (HELO M&S SQUAD) ROCA N/A 20,876 CASH 31

MECHANICAL FUSE  
 PROD CAPABILITY CSF N/A 28,484 LOCAL 32

3/4--1-1/2-TON  
 VEHICLE PROD CSF N/A 3,000 4,737 LOCAL 33

TW-72 LAW ROCA 41,000 5,032 LOCAL 34  
 120MM MORTAR ROCA 144 1,154 LOCAL 35  
 T-53 ENGINE ROCA 60 5,688 CO-PROD 36  
 XTCH AIRCRAFT (C)  
 (TRAINER) ROCAF 50 25,984 CO-PROD 37

M-42 DUSTER ROCA 32 3,127 CASH 38  
 M-48 TANKS (C) ROCA 219 4,824 CASH 39  
 155M HOW SP ROCA 24 2,905 CASH 40  
 M-41 TANK (C) ROCA 302 8,284 CASH 41  
 SHIP (AO) ROCN 1 150 CASH 42  
 O-1 AIRCRAFT ROCAF 18 158 CASH 43  
 SHIP (LSD) ROCN 2 526 :- # 44

155MM HOW.TOWED ROCA 92 1,453 CASH 45

BALLISTIC MEASUREMENT  
 EQUIPMENT CSF 10 200 CASH 46  
 IMPROVED HAWK  
 ACQUISITION ROCA 1 BTN 30,179 CASH 47

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F-4E AIRCRAFT (C) ROCAF 36 183,159 CASH 48

ANTITANK

MISSILE (C) ROCA 48 8,342 CASH 49

ROCKET PROD (TRIAL

BASIS) ROCA 12 63 LOCAL 50

M-107 175MM

CANNON ROCA 36 6,253 CASH 51

RF-4E AIRCRAFT(C) ROCAF 8 24,000 CASH 52

SUB ACQUI-

SION (C) ROCN 2 7,368 CASH 54

SHIP ACQ (DD) ROCN 4 4,421 CASH 55

C-130 AIRCRAFT (C) ROCAF 60 205,265 CASH 56

M-132 FLAME

THROWER ROCA 20 789 CASH 57

TOTAL US\$ 1,148,857

(A) WITH EXCEPTION OF F-5E PROGRAM, ALL REFERENCES TO CO-PRODUCTION AS SOURCE OF FUNDING SHOULD READ CASH OR COMMERCIAL CREDIT.

(B) REFERENCE TO "LOCAL" FUNDING REFERS TO LOCAL PRODUCTION SUCH AS THAT IN COMBINED SERVICE FORRCE FACILITIES AS OPPOSED TO DIRECT PROCUREMENT.

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(C) EITHER NOT REVIEWED OR NOT ENDORSED BY COUNTRY TEAM.

19. ADDING THE BILL: THOUGH WE WOULD EXPECT SOME REVISION OF LIST, AS NEW REQUIREMENTS DEVELOP AND CONSIDERABLE DELETIONS OF EQUIPMENT UNLIKELY TO OBTAIN USG SANCTION, THE GROC BILL FOR THE ABOVE WEAPONS SYSTEMS AND EQUIPMENT OVER THE 5-YEAR PERIOD WOULD STILL BE, IN GROSS FIGURES, US\$1.15 BILLION, REQUIRING AN AVERAGE ANNUAL OUTLAY OF US\$229.8 MILLION, UNDER FOLLOWING CATEGORIES OF INVESTMENT:

FY75 FY76 FY77 FY78 FY79

US CREDITS (FMS) 80.0 80.0 35.0 20.0 10.0

CASH IN US (FMS/CASH AND

COMMERCIAL CREDITS) 133.2 131.2 174.2 187.2 196.2

THIRD COUNTRY 16.6 18.6 20.6 22.6 23.6

TOTAL RESOURCES

(STRAIGHT LINE,

UNADJUSTED) 229.8 229.8 229.8 229.8 229.8

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CUMULATIVE TOTAL

RESOURCES 229.8 459.6 689.4 919.2 1149.0

20. DISCUSSION: GROC MILITARY BUDGET OF US\$1.12 BILLION (FY75) IS ALLOCATED AS FOLLOWS: 56 PERCENT TO ADMINISTRATION/PERSONNEL COSTS, 32 PERCENT TO OPERATIONS AND MAINTENANCE, AND THE BALANCE (A MAXIMUM OF 12 PERCENT OR US \$134.4 MILLION) TO LOCAL CURRENCY AND FOREIGN EXCHANGE COSTS FOR FACILITIES AND WEAPONS ACQUISITION/MODERNIZA-

TION PROGRAM, INCLUDING DEBT SERVICING. FOREIGN CURRENCY EXPENDITURE IN FY75 FOR DEBT SERVICE REDUCES TOTAL AVAILABLE FOR NEW EQUIPMENT PURCHASES BY UP TO US\$62 MILLION (LEAVING BALANCE OF US\$72.4 MILLION). DEBT SERVICING BY FY79 WILL RISE TO ABOUT US\$98 MILLION.

21. THIS MEANS THAT PROJECTED GROC MILITARY INVESTMENTS FOR US-SANCTION FORCE MODERNIZATION EXCEED AVAILABLE RESOURCES IN FY75 BY APPROXIMATELY US\$60 MILLION. US-SANCTIONED REQUIREMENTS ARE BASED ON MINIMUM ESSENTIAL FORCE NECESSARY TO DEFEND TAIWAN AND THE PESCADORES, WHILE GROC IS EXPECTED TO CONTINUE TO PLAN FOR LARGER FORCE OBJECTIVES WHICH THEY WOULD HAVE TO SUPPORT WITH INCREASING CASH PURCHASES. A CURRENT SHORTFALL OF GROC MILITARY CASH RESOURCES (AS AGAINST PLANNED REQUIREMENTS) EXISTS AND IS LIKELY TO CONTINUE FOR NEXT TWO TO THREE YEARS.

22. ALTERNATIVES AVAILABLE TO GROC ARE:

- 1) REDUCE MANPOWER;
- 2) DEFER OR CANCEL PLANNED EQUIPMENT MODERNIZATION PROJECTS;
- 3) INCREASE RESOURCES BY ALLOCATING ADDITIONAL FUNDS TO ALREADY DISPROPORTIONATELY HIGH MND BUDGET;; OR
- 4) OBTAIN CREDIT FINANCING WHICH WOULD FACILITATE DEFERRED PAYMENT ON CURRENT ACQUISITION. EARLY MANPOWER REDUCTIONS ARE NOT LIKELY FOR REASONS MENTIONED ABOVE. GIVEN MODEST PACE AT WHICH FORCE MODERNIZATION IS PLANNED, AS WELL AS URGENCY AND MILITARY NEED OF EQUIPMENT ACQUISITION, DEFERRAL IS HIGHLY UNPALATABLE TO GROC. THIRD ALTERNATIVE, GIVEN COMPETITION FROM CIVIL INFRA-STRUCTURE AND MAJOR DEVELOPMENT PROJECTS FOR SCARCE ASSETS, IS IM-SECRET

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PRACTICAL. THUS, CREDIT-SUPPORTED PROCUREMENT PROGRAM APPEARS ALTERNATIVE BEST SUITED TO JOINT US/ROC OBJECTIVES OF ACHIEVING CREDIBLE ROC DETERRENCE TO EXTERNAL THREAT. THREAT.

23. AS NOTED ABOVE IT IS UNLIKELY THAT TOTAL DEFENSE EXPENDITURES OR DEFENSE SHARE OF BUDGET, CAN BE REDUCED SIGNIFICANTLY, GIVEN RISING COSTS OF DEFENSE MODERNIZATION. DESPITE THIS AND VERY REAL MND CASH RESOURCE SCARCITY, ROC ECONOMY SHOULD MAINTAIN STRENGTH OVER PERIOD AHEAD AND ACCOMMODATE INCREASINGLY LARGER DEFENSE BURDEN WHICH ROC MUST BEAR.

24. RECOMMENDATIONS: RECOGNIZING ROC STRENGTHS AS WELL AS ITS WEAKNESSES IN MEETING ITS DEFENSE REQUIREMENTS, POLICY OBJECTIVES WE SHOULD:

A) CONTINUE TO ASSIGN FIRST PRIORITY IN SECURITY ASSISTANCE TO AIR AND NAVAL DEFENSE AND SECOND PRIORITY TO INCREASED MOBILITY OF REDUCED ROC ARMY (AND MARINES).

B) SEEK TO INSURE THAT ROC'S DETERRENT ROLE UNDER MUTUAL DEFENSE TREATY REMAINS CREDIBLE WHILE ENSURING THAT GROC MILITARY PROCUREMENT IS DEFENSIVE IN ORIENTATION.

C. WITHIN ABOVE FRAMEWORK, SEEK TRADE OPPORTUNITIES FOR SALES TO GROC OF US MILITARY EQUIPMENT AND SERVICES. ALTHOUGH THIRD-COUNTRY PROCUREMENT OF MAJOR WEAPONS SYSTEMS IS UNLIKELY BECAUSE OF POLITICAL CONSIDERATIONS, GROC HAS DEMONSTRATED ABILITY TO PURCHASE LESSER ITEMS FROM NON-US SOURCES. ACCORDINGLY, THROUGH APPROPRIATE CREDIT AND TERMS, WE SHOULD KEEP US MILITARY GOODS AND SERVICES COMPETITIVE SO THAT ROC MILITARY UPGRADING PROGRAM REMAINS COMPATIBLE WITH US INTERESTS.

D) MAINTAIN CONTINUING ACCESS BY ROC TO FMS CREDIT, TRAINING AND EXCESS ARTICLE PURCHASES, OVER PERIOD FY75-79. IF ROC ECONOMY FAILS TO PERFORM AT PROJECTED RATES DURING THIS PERIOD, WE MAY RECOMMEND SOME INCREASE IN CURRENTLY PROJECTED LEVELS OF FMS CREDITS, ESPECIALLY IF GROC IS WILLING TO REDUCE AND RESTRUCTURE ITS FORCES.

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